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# TRIP REPORT ON CONGRESSIONAL DELEGATION BENTSEN

**(European Visit of Friday, March 17, 1989 through Wednesday, March 29, 1989)**

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Prepared by the Staff for the Use of the

## COMMITTEE ON FINANCE
## UNITED STATES SENATE

LLOYD BENTSEN, *Chairman*

JULY 1989

Printed for the use of the Committee on Finance

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# TRIP REPORT ON CONGRESSIONAL DELEGATION BENTSEN

## I. INTRODUCTION

Between March 17 and March 29, 1989, a delegation of four Members of the Senate Committee on Finance travelled to Europe to discuss trade. The delegation was led by the Chairman of the Committee, Senator Lloyd Bentsen, and the Ranking Member, Senator Bob Packwood, who have been designated by the President pro tempore of the Senate as official advisers on trade policy and trade negotiations, pursuant to section 1632 of the Omnibus Trade and Competitiveness Act of 1988. In addition, the delegation included Senator Max Baucus, the Chairman of the International Trade Subcommittee of the Finance Committee and an adviser on trade policy and trade negotiation; and Senator David Pryor, a Member of the International Trade Subcommittee of the Finance Committee and also an alternate adviser.

Travelling with the Senators were their wives, who accompanied their spouses at the Senators' expense for protocol purposes; Jeffrey M. Lang, Chief International Trade Counsel of the Committee; Brad Figel, Minority Trade Counsel of the Committee; Gay Burton, Executive Assistant to Senator Bentsen; Yvonne Hopkins, Assistant Director, Office of Interparliamentary Services; and a complement of military personnel.

*Treatment of Classified Information.*—During the period when the travel covered by this report occurred, the President and his U.S. Trade Representative (USTR) were engaged in trade negotiations on subjects within the scope of this travel. It has long been the convention of the Committee on Finance that the trade strategy and tactics of the United States with respect to pending negotiations was not discussed publicly where it had been classified by the Administration. This practice protects the U.S. position in pending negotiations, while allowing the Executive Branch to consult fully with Congress on trade policy and trade negotiations. In accordance with this practice, this public report does not discuss sensitive negotiating strategies of the United States which have been classified, even though these were the subjects of discussions with Administration officials in Washington before the group left and after they returned and with the staffs of U.S. embassies and missions abroad.

In addition, during the trip, the delegation visited the U.S. Mission to the North Atlantic Treaty Organization (NATO), during which they discussed with the U.S. Ambassador to NATO the status of the U.S. commitment. This discussion involved classified matters relating to national security, and is not the subject of this report because of the sensitivity of the matters discussed.

*Purposes of the Travel.*—This trip occurred at a time of major importance in U.S. international trade. The trade deficit of the United States in 1988 was $137,340.3 million. The trade deficit had resulted in a substantial foreign debt for the United States for the first time since before World War I. The trip was intended to enable Senators to better able address the trade deficit.

In August 1988, President Reagan had signed into law the Omnibus Trade and Competitiveness Act of 1988, which set forth a blueprint for attacking the Nation's trade deficit through both domestic competitiveness programs and a coherent and tough, but fair, international trade policy. An essential part of this trade policy included the aggressive pursuit of the legitimate rights of the United States in international trade, as well as the negotiation of the Seventh Round of Multilateral Trade Negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT). Beginning in early 1989, the Committee commenced an extensive program of oversight of the implementation of the Trade Act. Oversight included an active program of public hearings, private consultations with the USTR, and a rich exchange of written information. This travel was scheduled as an integral part of that oversight process.

Important factors dictated travel to Europe during this period. Not only is the Uruguay Round of Multilateral Trade Negotiations to be carried out in Geneva, Switzerland, but the European Community (EC) is currently of great importance to the United States.

The EC represents the single largest trading partner of the United States. Total trade between the EC and the United States in 1988 was over $160 billion. Over $75 billion of that trade was U.S. exports to the EC, double U.S. exports to Japan. The EC, taken as a whole, is the single largest trading partner of the United States.

A number of bilateral trade disputes have recently marred the relationship between the EC and the United States, and the United States has recently been forced to retaliate in some of those cases, bringing trade tensions to a boil just before the trip began.

Moreover, the EC is considering an extremely complex and important program to complete the internal market of the EC, known popularly as "EC 1992." Prior to the trip, the Committee had informally received memorials from a number of business organizations and private companies suggesting that the EC 1992 program was of great importance to the commerce and trade of the United States and deserved the special attention of the Committee. In these submissions, these organizations and companies identified concrete problems. Prior to beginning the travel, the Senators met privately with the USTR, Ambassador Carla Hills, who briefed them on all aspects of issues that might arise during the course of the trip.

## II. GENERAL BACKGROUND OF THE TRIP—THE EC

### A. EC's Economic Impact

(1) *EC World Trade.*—In 1987, the EC had 323 million inhabitants, making it potentially the largest market in the world among developed countries. The United States and Japan had 244 million and 122 million inhabitants. respectively. The EC had a 1987 Gross

Domestic Product (GDP) of $4.586 trillion, while the United States' GDP was $4.87 trillion and Japan's amounted to $2.572 trillion.

The EC's imports in 1987 were $399.4 billion, compared to U.S. imports of $424.4 billion; and exports were $378 billion compared to 1987 U.S. exports of $254.1 billion. Thus, total EC trade (imports plus exports) was $100 billion greater than that of the United States ($777.4 billion versus $678.5 billion), but it imported slightly less and exported much more than the United States (respectively, the differences were $25 billion less in imports and $124 billion more in exports).

In per capita terms, the EC is somewhat less of a trader than the United States (total trade of $2,406 per capita for the EC versus $2,779 per capita for the United States in 1987). However, because of their smaller Gross National Product (GNP), imports are a larger percentage of GNP in the EC than in the United States, 9.2 percent versus 5.4 percent. Exports are about 9.3 percent of GNP in both the EC and the United States.

(2) *U.S.-EC Trade.*—The EC is the largest trading partner of the United States. In 1988, the United States had a $12.8 billion merchandise deficit with the EC. The United States imported $88.7 billion from the EC and exported $75.9 billion to the EC; total trade was $164.7 billion. Our total direct investment in each other's markets is estimated at $224 billion, while portfolio investment is even higher.

The global patterns of U.S. and EC trade differ. The EC has more trade with the Soviet Union and Eastern Europe than the United States, and the United States has more trade with Japan and the newly industrialized Asian countries than does the EC. The EC imports around $17 billion from the Soviet Union and Eastern Europe compared to around $500 million in U.S. imports from these countries in 1988. U.S. imports from Japan alone are running over $80 billion per year; the EC imports only $40 billion per year from Japan. Finally, the developing countries exported very roughly the same to the United States as to Europe, about $150 billion versus $125 billion, respectively, in 1987, whereas the EC exports more to less developed countries (LDC's) than the United States, $114 billion versus $75 billion in 1987.

## B. How the EC Works

The EC consists of 12 countries: Ireland, Britain, Denmark, West Germany, France, Portugal, Spain, Italy, Belgium, Holland, Luxembourg, and Greece. In terms of international trade regulation, the EC is a "customs union," as distinguished from a free trade area.[1]

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[1] In a customs union, countries not only abolish tariffs and other trade barriers between themselves, but they establish a common external tariff and trade restriction regime that applies to countries that are not members of the union. A free trade area is an agreement under which countries abolish tariffs and other trade barriers between themselves, but continue to maintain their separate tariffs and other trade barriers against other countries of the world. The U.S.-Canada Free Trade Agreement (FTA) created a free trade area; in Europe, Sweden, Austria, Switzerland, Iceland, and Norway form the European Free Trade Area (EFTA). Both customs unions and free trade areas are inconsistent with the basic idea of the GATT, the idea of most-favored-nation (MFN) treatment, but GATT contains a special provision that allows members of GATT to enter into free trade area or customs union agreements, so long as they cover substantially all the trade between the parties to the agreement.

The "constitution" of the EC consists of three treaties signed in 1957, the best known of which is the Treaty of Rome, under which the EC was founded and most of its institutions were created. The first amendment to this constitution is the Single European Act, a 1987 codicil that created procedures without which it was thought the EC 1992 project would be slowed if not stopped.

(1) *EC Institutions.*—The EC has a parliament, a judiciary, and an executive (called "the Commission"). While these institutions do have significant powers that have been increasing gradually over the last 30 years, the heart of the power in the EC is in a fourth institution, which has no real counterpart in the United States, the Council of Ministers.

(a) *The Council.*—The Council consists of an official from the government of each member state, usually cabinet members or Prime Ministers. When they agree on an action, then it becomes an action of the EC. Once the Council acts (or the executive acts under authority of the Council or a treaty), then both individual people in EC countries and member states are required to conform to that order.

The Council meets two or three times a year at the head-of-government level, when they are known as "The European Council." Chairmanship of the Council (called the "Presidency of the Council") rotates by six-month periods among the member states, following the alphabetical order of the names of the EC countries in their own language. The President of the Council at the time of this trip was Spain, and France was scheduled to be next.

(b) *The Commission.*—The Commission is the center of everyday action in the EC. It drafts proposals for Council decision and carries out Council decisions; it has the lion's share of EC personnel resources; it is the visible "government" of the EC in Brussels; and its subdivisions all have politically-chosen leadership. Increasingly, the Commission seems to function as an executive.

The Commission is divided into 17 departments, called directorates, each headed by a commissioner. The Council selects a chairman of the Commission (his title is President of the Commission, which is completely different from President of the Council), and the President, now M. Jacques Delors of France, apportions the specific responsibilities of the commissioners based on political considerations and qualifications. The commissioners together constitute the European Commission.

The commissioners are political appointees; they are selected, one or two from each member state, by their national governments for four-year terms. The current term began just before the trip on January 1, 1989, and will end December 31, 1992. Thus, the current commissioners had only been in their current posts since January (incidentally, the date for the "1992" project was chosen so the project would be completed by the end of the current Commission's term). Below the Commission are permanent staffs, headed by directors general. These are the people responsible for the drafting of Commission proposals and, if and when such proposals get EC governments' approval, for implementing them. Overlaying the career services are the cabinets, the personal entourages of individual commissioners. These private offices (half a dozen strong) keep a

commissioner up to date on matters outside his or her immediate dossier and act as his or her political antennae.

(c) *The Parliament.*—The European Parliament consists of 518 members. Since 1979, members have been elected directly by the people of Europe every five years (at the same time in all countries) on the basis of individual electoral systems determined by each member state. The members of the European Parliament do not, however, sit as national blocs, but rather are organized into eight cross-national political groupings, covering the political spectrum in Europe.

(d) *The European Court of Justice.*—The Court consists of 13 judges (at least one per member state) named to six-year terms by the mutual consent of the member states. The Court is not unlike the Supreme Court in the United States, in that it can interpret the Treaty of Rome, rule on whether member states have fully conformed to Council legislation, and resolve disputes involving the other EC institutions, including disputes relating to their actions and their competence. Cases can be brought by national governments, persons (operating through the relevant national court system), and the EC institutions.

(2) *The Single European Act (the Act).*—When the project of eliminating internal barriers by 1992 was first proposed, it was obvious that the then-existing procedures of the EC would never allow the process to go forward, because a single member state could block a vote in the Council under what was called the "Luxembourg Compromise," by invoking a "vital national interest." By 1985, this procedure had left some EC decisions on hold since the 1960's. The Act, in force only since July 1987, was specifically intended to break the Luxembourg Compromise with respect to EC 1992 decisions.

The Act gave the European Parliament a larger role in lawmaking, called the "cooperation procedure." Under the cooperation procedure, there are two readings of a directive. At the first reading, when the Commission sends proposed directives and regulations to the Council, Parliament can submit its opinion. The Commission and the Council must take this opinion into account in revising the proposal for a second reading. At the second reading, amendments passed by a two-thirds majority of Parliament's membership will be adopted by the Council unless the Council opposes them unanimously. The Act also for the first time allows the Parliament to reject applications for membership in the EC as well as trade and other agreements negotiated with non-EC countries.

The most important innovation of the Act was to establish weighted voting in the Council on all matters relating to the internal EC market except taxation, professional qualifications, and the rights and interests of employees. Under this system, called a "qualified majority", no single member state can block action, as in the past. Votes are apportioned among the member states on the basis of their size, as follows:

| | |
|---|---|
| Germany | 10 |
| France | 10 |
| Italy | 10 |
| United Kingdom | 10 |

| | |
|---|---|
| Spain | 8 |
| Belgium | 5 |
| Greece | 5 |
| Netherlands | 5 |
| Portugal | 5 |
| Denmark | 3 |
| Ireland | 3 |
| Luxembourg | 2 |
| Total | 76 |
| Necessary for Qualified Majority | 54 |
| Necessary for Blocking Minority | 23 |

### C. The EC 1992 Project: Problems for the United States

A 1985 EC White Paper, "Completing the Internal Market," is the blueprint for the EC's work plan to accomplish an integrated single market by 1992. In the paper, the Commission identified 300 regulations (since reduced to 279) needed to remove the remaining physical, technical, and fiscal barriers between member states. As of June 1988, the Commission had proposed 211 directives. Eighty-five had been adopted by the EC; 75 more remained to be formulated.

Prior to the trip a number of aspects of EC 1992 had come to the attention of the Committee as having a potential for adverse impacts on the United States. These are, briefly, as follows:

(1) *Reallocating Member State Quotas.*—An EC press release in the fall of 1988 acknowledged and described the local quota problem:

> At present there are certain quantitative restrictions in the member states of the Community affecting mainly East European countries and Japan and also involving the national quotas under the textile agreements of the GSP [Generalized System of Preferences]. Completion of the single market will mean the removal of quantitative restrictions and will require unified import rules in respect of non-Community countries. [EC Press Release, October 20, 1988]

In December 1988, a U.S. Government task force on EC 1992 reported that there are "over 1,000 products currently covered by national quotas—the majority of these are directed at imports from state-trading countries." However, even after the state trading quotas are put to one side, EC member states still have quotas on automobiles, footwear, urea, consumer electronics, bananas, sewing machines, motorcycles, dishware, and certain ceramic articles from non-state trading nations.

As internal barriers are reduced, national quotas will be either eliminated or replaced by EC-wide quotas. This creates the possibility of injury to U.S. exporters. Automobile quotas seemed to be the proxy for this issue.

Exports of Japanese cars and commercial vehicles to five EC countries—Britain, France, Italy, Portugal, and Spain—are cur-

rently limited by varying types of import restraint at the national level. The curbs cover not only direct Japanese exports to each of the five countries but also indirect exports routed through other EC member states. Compared to the United States, existing EC controls on Japanese cars are tough. Japanese imports of automobiles had 26 percent of the U.S. market in 1988, only 8.9 percent of the EC market.

If the single market program goes into effect, the quotas will be unworkable because removal of the frontier controls inside the EC will make them impossible to enforce. For the EC simply to allow the Japanese free run of its single market was evidently regarded as politically out of the question, at least in the foreseeable future, so the search was on for an alternative.

What the Commission was thinking of proposing at the time of the trip was to replace the patchwork of national restraints with an EC-wide ceiling on Japanese car exports of 1.1 million, to be arranged with the Japanese Government. To get Japan to agree, the Commission tentatively suggested the ceiling should be lifted in stages. However, European car makers, represented by the Committee of Common Market Automobile Constructors (CCMAC), wanted the EC ceiling to be very tight, basing it on figures for 1985 through 1986 when Japanese car and light commercial vehicle exports to the EC totalled only 1.05 million. They also wanted Japanese cars with less than 80 percent EC content by value to count against the total covered by the ceiling (this would mean Hondas made in Ohio were "Japanese"). Finally, they wanted the EC to rule out lifting existing national curbs on Japanese exports until European car sales in Japan equal half the "penetration" achieved by the Japanese in the EC (EC motor companies had two percent of the Japanese automobile market in 1987).

If EC member state quotas are generalized for the EC as a whole, this principle could be adopted with respect to a great many goods, including some exported from the United States. Moreover, even in automobiles, tough EC rules of origin might have impacts in the United States.

At present, EC rules state only that to qualify as an EC product, "the last substantial manufacturing operation" must be performed in the EC. Nissan's car factory in Washington, northern England, was at the time of the trip the only Japanese car assembly plant producing in the EC, and it was the focus of whether cars made in one European state are European enough to circulate freely in the EC.

France was insisting that the Nissan car, the "Bluebird," should be under the French tight import quota on Japanese cars until the car had a local content of 80 percent. The United Kingdom was seeking a European Commission ruling that the car should be regarded as British-built, with a right of free access to all EC markets, as it has exceeded 60 percent local EC content.

The resolution of this dispute could have wide implications. In certain industrial sectors, some EC member countries were requiring foreign-owned companies to purchase locally a minimum percentage of production inputs for goods sold in that country. The EC Commission had applied local-content requirements in response to Japanese companies' efforts to circumvent antidumping duties

through the establishment of "screwdriver plants" in Europe. And a local content rule on cars might mean cars assembled in the United States from Japanese components would be subject to EC quotas.

(2) *Financial Sector: EC Concepts of Reciprocity.*—On October 20, 1988, after months of international concern, the EC released a carefully worded press release on reciprocity in EC 1992, which still left matters confused:

> In sectors where there are no multilateral rules, the Community will endeavor to obtain greater liberalization of world trade through the negotiation of new international agreements. The Uruguay Round negotiations provide an opportunity here that the Community will seize. It would be premature, however, to grant non-member countries automatic and unilateral access to the benefits of the internal liberalization process before such new agreements exist. Non-Community countries will benefit to the extent that a mutual balance of advantages in the spirit of the GATT can be secured. The Community may thus have to negotiate bilaterally with its partners to obtain satisfactory access to their markets. In other words, the Commission reserves the right to make access to the benefits of 1992 for non-Community firms conditional upon a guarantee of similar opportunities—or at least non-discriminatory opportunities—in those firms' own countries. This means that the Community will offer free access to 1992 benefits for firms from countries whose markets are already open or are prepared to open up their markets voluntarily or through bilateral or multilateral agreements. Reciprocity does not mean that all partners must make the same concessions nor even that the Community will insist on concessions from all its partners. For example, it will not ask the developing countries to make concessions that are beyond their means. Nor does reciprocity mean that the Community will ask its partners to adopt legislation identical to its own. Nor does it mean that the Community is seeking sectoral reciprocity based on comparative trade levels, this being a concept whose introduction into United States legislation has been fought by the Community.

The EC was at the time of the trip preparing some 60 directives affecting commerce in a range of specific service sectors. These include transportation (air, maritime, and road), banking, securities, insurance, mortgage credit, payment cards, engineering, mobile telephones, information services, medical services, and broadcasting. Other directives will cut across sectoral lines (e.g., government procurement of services and professional qualification requirements). In addition, the EC was crafting a policy framework for services in general.

Reciprocity provisions had been incorporated into proposed directives on banking, investment services, and public procurement. EC Commission officials had indicated that reciprocity could be required in financial services, investment, intellectual property

rights, and government procurement sectors not covered by the GATT Procurement Code.

The EC was considering a universal banking approach that would allow banks to conduct financial services activities related to securities transactions. With a single banking license, a bank incorporated in any member state would automatically have the right to set up branches and conduct banking transactions with investors and depositors from any other member state. An EC bank would remain under "home country control" for initial authorization and subsequent prudential supervision. The agreed list of banking activities set forth in the second banking directive included trade in securities, participation in equity share issuance and portfolio management and advice. The EC was also considering arrangements for establishment and operation of brokerage and other investment services firms independent of banks. The Commission intended to harmonize member state laws and regulations to facilitate a single market for stocks and bonds, including electronic linkages between EC stock markets. Several directives had already been approved by the Council, and others are in the works, covering mutual funds, insider trading, and what information goes into a company prospectus.

Most, if not all, of this would be good for U.S. banks, if they could participate on the same basis as EC banks (national treatment), but many in Europe believed that to demand reciprocal access to overseas markets is a reasonable quid-pro-quo for granting access for outsiders to a liberalized European banking market. Some countries claim that reciprocity meant insisting on identical treatment—in other words, U.S. banks should not be given access to the pan-European banking market because interstate banking restraints in the United States impede nationwide operation by European banks in the United States. Others argued that subsidiaries of foreign banks already established in the EC should be denied the right of pan-European operation unless reciprocal access is granted to their home markets. Finally, others were opposed entirely to the reciprocity idea for the EC, because it could effectively allow a country without a strong international banking sector to block the establishment of Japanese banking subsidiaries in those that do.

(3) *Government Procurement.*—

> The 1992 program . . . provides for the opening-up of sectors not covered by the GATT Procurement Code (water, transport, energy, and communications). In these sectors, the Community is prepared to negotiate with its partners access to the advantages of the internal market in order to ensure a balance of benefits.

The value of government procurement in the member states of the EC is estimated to be about $490 billion per year, yet competition for these sales is limited. In the member states, roughly 20 percent of public contracts are subject to open tendering and only two percent are awarded to non-national firms. Under the White Paper timetable, the Commission aimed to enlarge coverage of open procurement practices greatly (within the EC) by 1992, and to extend competitive practices (for EC products) into the sectors pre-

viously exempted from EC directives: Telecommunications, water distribution, energy, and transportation.

On October 11, 1988, the Commission issued two new proposed directives designed to open up intra-EC competition for procurement opportunities in the so-called "excluded sectors." One proposed directive would cover procurement by entities in the telecommunications sector; another would cover procurement by entities in the water, energy, and transport sectors.

The directives would call for competition prior to awarding contracts. Both public and private companies would be covered. Under the proposed rules, contracts would have to be awarded to the most "economically advantageous" tender or to the one with the lowest price. Transparency would be assured through publication in the *Official Journal* (the EC's counterpart of the *Federal Register)* of various notices describing the entity's procurement plans for the coming year as well as contracts already awarded. Entities covered would include PTT's, water companies, airports, maritime ports, railway companies, gas and electric utilities, and gas and oil explorers. The Commission was proposing that the directives become effective by March 1, 1990.

The provisions for third country treatment were the same in the two operative directives: Entities can exclude (but are not required to do so) offers containing less than 50 percent EC content. But these entities must grant a three percent preference to equivalent offers containing 50 percent EC content against those with less than 50 percent EC content.

Because the directives make clear that their benefits can be extended to third countries through reciprocal agreements, the adoption of the new directives in the "excluded" sectors could be helpful to U.S. efforts to gain access to these markets. There are two reasons:

(a) *Government Procurement Code Negotiations.*—The 1979 GATT Code on opening up government procurement left a number of sectors closed because the EC did not have "competence" (that is, authority to act on behalf of member states) in those sectors. If approved, the directives would give the Commission jurisdiction over these procurements, so the new directives would put the EC in a position to negotiate in the GATT with the United States for the first time on the excluded sectors.

(b) *Open Procedures.*—These directives would also accomplish the task of establishing consistent, predictable, and competitive procedures like those used in the United States. In the current situation, procurement in the so-called excluded sectors may be conducted in an arbitrary manner, and discriminatory treatment of foreign (including other EC member states) firms is the rule. Any foreign sales into these markets are made solely as a result of economic need (lack of availability) or possibly as part of a broader deal involving benefits to the procuring entity (offsets or technology transfers) and not because of any obligation on the part of purchasers to consider foreign bids.

U.S. concerns remain, however. Foreign suppliers would face a three percent preference for EC suppliers and would not enjoy any of the directives' legal guarantees against discrimination. The 50 percent local content requirement, if applied, would make many

bids impossible. But the main problem is that many of these sectors have been opened to international bidding in the United States, either because they are not public sector enterprises in the United States or because (as in telecommunications) the United States has unilaterally deregulated these sectors. Thus, there is a lack of reciprocal opportunities in these sectors as between the EC and the United States, and the proposed directive, while possibly an advance, would not cure this condition.

(4) *Technical Standards.*—The setting of common technical requirements for industrial goods sounds a deceptively mundane note in the grand vision of Europe's single market. By the time of this trip, the Commission had ceased trying to create detailed harmonized standards in Brussels and now proposed to set only the essential requirements, allowing within those limits variations in member state laws and regulations. Once these essential requirements have been met, member states are obliged to recognize the adequacy of each other's standards and allow free movement of goods and services on that basis. This approach (called "harmonization and mutual recognition") greatly simplifies the task of producing EC directives or regulations.

Certainly the possibility of being able to circulate products freely in the EC by meeting the standards of only one country would be helpful to foreign as well as European firms. Yet standards drawn from European practice could act as a barrier to sales of U.S. goods because product tests might be required that are not normally conducted by U.S. companies; in some cases it appears the only way to certify an American product for sale in the EC may be to do it on European soil, a significant extra cost for U.S. exporters with no European facilities. There is also the question of whether U.S. producers will be allowed to contribute to the process of standards-setting.

## D. U.S.-EC Bilateral Issues

In addition to problems presented by EC 1992, there were at the time of the trip a number of bilateral trade issues that were of concern to the Committee. Those were as follows:

(1) *Agricultural Issues.*—The ramifications of the EC Common Agricultural Policy (CAP) are adverse to U.S. producers, and are a continuing source of tension. Despite efforts by the EC to confront the United States with similar accusations, U.S. programs on most major crops support prices at or below world prices, so the costs to consumers of U.S. programs is lower than the consumer costs of the foreign programs. In preparing for the trip, the Committee staff asked the Congressional Research Service to report the most current data on the percentage of disposable income spent on food in a number of industrialized countries. Those data are as follows:

## PERCENTAGES OF DISPOSABLE INCOME SPENT ON FOOD IN SELECTED COUNTRIES

| Year | Country | Percentage |
|---|---|---|
| 1986 | United States | 10.4 |
| 1986 | Japan | 15.7 |
| 1986 | Netherlands | 12.5 |
| 1986 | France | 14.5 |
| 1986 | United Kingdom | 13.0 |
| 1986 | Greece | 29.1 |
| 1985 | Belgium | 15.8 |
| 1985 | Germany | 15.7 |
| 1985 | Spain | 24.0 |
| 1981 | Portugal | 23.6 |

SOURCE: U.S. Department of Agriculture (USDA), Economic Research Service.

(a) *The CAP.*—The EC's CAP incorporates the following four mechanisms:

—*Common Financing.*—The cost of the CAP is shared by member countries through a common budget. Revenues come from customs duties, variable levies, and up to one percentage point of EC member states' value-added taxes. More than two-thirds of the EC's total budget went to finance the CAP in 1987, about 27.5 billion ECU (approximately $32.4 billion), up from 11.3 billion ECU ($15 billion in 1980).

—*Common Pricing.*—The Council of Agriculture Ministers of the EC annually sets a minimum "target" price for all the agricultural products covered by the CAP. The actual prices are determined by two other prices which are below the target price. One is the threshold price; the other is the intervention price.

The threshold price determines the price at which imports are permitted to enter the EC. The threshold price is less than the target price by the cost of unloading and transporting the product to major consuming centers. If the world market price is below the threshold price, as is almost always the case, then a variable levy equal to the difference is imposed (see below).

If domestic supply exceeds demand, as it often does, then the actual producer price will be below the target price. If the producer price falls far enough, the intervention price comes into play. Under the CAP, the EC has a legal obligation to purchase products offered to it at the intervention price.

—*Common Import Restrictions.*—The CAP preference for EC products is achieved through a system of floating customs duties called variable levies. The levies change so that imports do not undercut the EC target price established for each agricultural product. Thus, the variable levy acts to guarantee that imports will be at least as expensive as EC products. Now that the EC is self-sufficient (or producing a surplus) in most commodities, the

variable levy effectively closes the EC to import competition on most products.

—*Common Treatment of Surpluses.*—With high support prices and trade barriers, the EC is a surplus producer of most agricultural products. In general, it just exports surpluses with a subsidy that enables the product to move on the international market.

(b) *Reforms of the CAP.*—Recent world price movements and production drops due to drought or other conditions, as well as support price cuts in the EC, could save the EC some cost in financing the CAP. But it would be the exception. Budget support for EC farmers grew steadily from 1980 through 1988 with a slight dip in 1981. This support is projected to decline slightly in 1989. The following table was prepared by the Congressional Research Service from European sources:

EC BUDGET SUPPORT FOR AGRICULTURE 1980 THROUGH 1989 FORECAST

| Year | ECU's (in millions) | U.S. dollars (in millions) | Percentage annual change |
|---|---|---|---|
| 1980 | 11,314.9 | 115,753.87 | +8.4 |
| 1981 | 110,980.2 | 115,287.45 | -3.0 |
| 1982 | 112,405.6 | 117,272.87 | +13.0 |
| 1983 | 115,811.6 | 122,015.04 | +27.5 |
| 1984 | 118,346.4 | 125,544.52 | +16.0 |
| 1985 | 119,744.2 | 127,489.57 | +7.6 |
| 1986 | 122,137.4 | 130,821.34 | +12.1 |
| 1987 | 126,395.0 | 131,165.34 | +19.2 |
| 1988 | 127,500.0 | 132,450.00 | +4.2 |
| 1989 | 126,741.0 | 131,554.38 | -3.0 |

SOURCE: Agra Europe, November 4, 1988, page E/3; January 13, 1878, page E/6.

The impact of "reforms" of the CAP on over-production are marginal at this stage, according to the USDA. EC expenditures on the CAP were down a bit in 1988, but this was probably due to the U.S. drought (which raised world prices closer to EC intervention prices) rather than the reforms.

(c) *The Impact of the CAP.*—As long as the EC remained a net importer of agricultural products, the existence of the CAP provided little cause for bilateral tension with the United States, although it did reduce U.S. exports. Total agricultural exports from the United States to the EC declined from $10.33 billion in 1980 to $6.84 billion in 1987 (the United States has, nevertheless, maintained a positive agricultural trade balance with the EC). The most valuable single export today is by far soybeans, mainly because EC rates of duty on soybeans were "bound" in the GATT in the 1960's at a zero rate of duty. In 1987, the four top U.S. agricultural exports to the EC were as follows:

99-450 0 - 89 - 2

[Dollars in billions]

| | |
|---|---|
| Soybeans | 1.987 |
| Corn by-products | .733 |
| Soybean meal | .502 |
| Tobacco | .460 |

U.S. exports to third country markets have been reduced because EC export subsidies have undercut U.S. prices in those third countries. The value of total U.S. exports reached a peak of $43.78 billion in 1981, declining to $28.6 billion in 1987. In 1988, U.S. agricultural commodity exports recovered to $37 billion. At the same time, the EC increased from $21.7 billion in 1981 to $28 billion. Other factors, such as fluctuations in currency exchange rates, a demand-dampening recession in the early 1980's, and other countries' protectionist policies, played a role in this decline, but the USDA believes EC export subsidies have had a large impact.

(2) *Telecommunications Trade with the EC.—Actions Taken by the Bush Administration.*—On January 19, 1989, the USTR announced, as mandated by the Trade Act of 1988, certain telecommunications trade priorities; specifically, that the EC and Korea had been designated under the telecommunications trade provisions of the 1988 Trade Act as "priority countries." The EC, as such, so far has few existing policies regarding trade in telecommunications goods and services; however, the member states have given their authority to negotiate on trade matters to the EC, and the Administration decided it was appropriate to designate the EC for that reason.

West Germany is the largest telecommunications market in Western Europe, totaling an estimated $5.7 billion in 1988. This market is largely closed to competition from U.S. firms. The National Trade Estimate (NTE) report issued in October 1987 (the most recent before the trip) indicated problems with market access in West Germany because of (i) discriminatory procurement practices by the Deutsche Bundespost (the West German telecommunications administration); (ii) unnecessarily restrictive regulations for attaching equipment to a network, as well as a lack of transparency in the standards-setting process; and (iii) restrictions by the Bundespost of services that may be offered by private companies.

U.S. firms were reported to be similarly hampered in cracking the $3 billion per year French market. The 1987 NTE reported (i) closed bidding procedures for purchases of central office equipment by the Direction Generale des Telecommunications; (ii) restrictive regulatory procedures, standards, and testing requirements that favor domestically produced equipment; and (iii) restrictions on the ability of private companies to offer telecommunications services.

(3) *Other Bilateral Trade Disputes with the EC.*—

(a) *Beef Hormones Dispute.*—In January 1989 the EC applied to beef imports from the United States an EC-wide ban on meat treated with growth hormones. The ban applied equally to meat produced within the EC and to imported meats. The ban effectively prevents approximately $100 million in U.S.-grown beef from entering the EC (as a concession to the United States, the EC decided

not to apply the ban to U.S.-produced meat intended for use in pet food, which accounts for about $25 million in trade annually). Most of the affected exports are either high-quality meats or so-called "specialty meats," meaning usually offals. The Administration had imposed retaliation for this action in the form of 100 percent tariffs on approximately $100 million worth of EC exports to the United States, including beef, hams, tomatoes, coffee, and fruit juices.

The EC had blocked for 19 months a U.S. request to resolve this dispute under the dispute settlement procedures of the 1979 Tokyo Round "Standards Code," which the Administration says obligates the EC to submit its ban to scrutiny by a panel of technical experts to determine whether there is a scientific basis to justify it.

On February 18, 1989, the United States and the EC had agreed to establish a task force of high level officials to seek to resolve the issue by May 4. The EC agreed to withhold its proposed counter-retaliation until then. Under an interim agreement, the amount of U.S. retaliation will be lowered to the extent of the value of any U.S. beef (presumably not hormone-fed) the EC allows to be shipped to Europe.

(b) *EC Oilseeds Subsidy.*—On December 16, 1987, the American Soybean Association filed a section 301 petition alleging that new EC policies with regard to soybeans and other oilseeds nullified benefits accruing to the United States under the GATT. USTR initiated an investigation in January 1988 and requested consultations with the EC on the issue. After consultations proved unsuccessful, USTR requested a GATT dispute resolution panel to hear the case. The EC blocked this request at first, but ultimately acquiesced in June 1988. However, it has since delayed efforts to choose panelists (a panel had by the time of the trip been chosen) and then stalled efforts to develop "terms of reference" (guidelines on what the dispute is) for the panel's consideration, which effectively prevented the panel moving forward. Since the trip, there has been some progress in moving the dispute settlement process forward.

The Administration's claim in the GATT case is twofold: First, an EC subsidy for processing domestic oilseeds, but not imported oilseeds, violates the GATT's non-discriminatory "national treatment" requirement; second, providing the subsidy effectively nullifies the benefits to the United States of the EC's zero tariff binding on soybeans. According to a USTR source, the amount of U.S. export trade denied by the EC subsidy is $1.5 billion annually.

(c) *Steam Turbine Generator Access.*—General Electric complained for several years before the trip that U.S. producers of steam turbine generation equipment products and services were unable to gain access to the Western European market, and the lack of reciprocity in the treatment of these products between the United States and certain European countries. These countries are West Germany, France, Italy, the United Kingdom, Switzerland, and Sweden, the last two of which are not EC members. Although official government policies differ, there exists discrimination against U.S. producers in these governments' procurement policies. According to General Electric, no U.S. producer has been able to sell a single large steam turbine generator in any of these countries since 1960. This is estimated to be a $20 billion market. During the same period, Western European manufacturers secured

orders in the United States for approximately 65 gigawatts of steam turbines, representing about $5 billion, or 10 percent of the U.S. market.

(d) *EC Third Country Meat Directive.*—USTR initiated a section 301 investigation in July 1987 with regard to the EC's Third Country Meat Directive. The directive precludes meat imports into the EC unless EC veterinarians have inspected and certified plants where the meat was slaughtered and packed. The directive has the potential of closing off a significant degree of trade (unlike the beef hormone ban, the directive affects all kinds of U.S. exports of red meat products, not just beef).

Consultations with the EC in late 1987 were not immediately fruitful, and USTR requested that a GATT dispute settlement panel be formed to look into the dispute. The EC at first blocked that request, but then acceded to formation of a panel. Since that time, the EC has taken actions to give a number of U.S. meat packers access to the EC market despite the existence of the directive. For that reason, the Administration has not pressed the case; however, since it involves the same market sector as the hormone dispute and the directive comes up for review every year, USTR kept the case alive.

(e) *EC Copper Scrap Export Restrictions.*—The Copper and Brass Fabricators Council filed a section 301 petition late in 1988 involving EC quotas on exports of copper scrap. Article XI of the GATT generally forbids restriction on exports. The Council contends that the EC export quota gives EC fabricators access to lower priced copper scrap that gives them an unfair advantage in the pricing of finished copper and brass products. USTR has initiated an investigation, and notified the EC of its intention to seek consultations on the issue.

(f) *EC Canned Fruit Processing Subsidies.*—In 1981 the California Cling Peach Advisory Board petitioned for a section 301 investigation on EC subsidies on processing, that is on canning, of canned fruits, including peaches, pears and fruit cocktail (the EC also subsidizes production of the unprocessed fruit, but these subsidies were not at issue). USTR initiated a case and sought GATT resolution of the issue. The GATT panel that considered the case decided in the favor of the United States in 1984. The EC, however, blocked GATT adoption of the panel report. In response, the Reagan Administration decided to retaliate unless the EC acted to resolve the issue by December 1985. In that month a settlement was reached under which the EC decided to phase out its processing subsidies.

In response to industry complaints, USTR has examined the alleged failure of the EC to implement the agreed subsidy elimination and has consulted with the EC on the issue. The Administration believes the EC has not lived up to its commitments, but as of the time of the trip, no action has been agreed upon.

(g) *EC Industrial Subsidies.*—In recent years, great concern has developed over a variety of EC industrial subsidies. Outstanding among these are subsidies to Airbus Industries, a consortium of EC companies, mostly state-owned, that competes with U.S. producers of commercial aircraft.

## III. GENERAL BACKGROUND OF THE TRIP—THE URGUAY ROUND MULTILATERAL TRADE NEGOTIATION

### A. General Status of the Round at the Mid-Term

Trade Ministers of GATT member nations met at Punta del Este, Uruguay in September 1986. As a result of that meeting they issued the Punta del Este Declaration launching the Uruguay Round of Multilateral Trade Negotiations and setting the general parameters of those negotiations. Essentially, the negotiations are being conducted in two umbrella groups: the Group on Trade in Services and the Group on Trade in Goods. The Group on Trade in Goods was further divided into 14 groups negotiating on the following specific subjects:

—Agriculture
—Trade-related Aspects of Intellectual Property Rights ("TRIPS")
—Tokyo Round Codes
—Tariffs
—Non-Tariff Measures
—Dispute Settlement
—Functioning of the GATT System ("FOGS")
—Natural Resource-Based Products
—Subsidies and Countervailing Measures
—Trade-Related Investment Measures ("TRIMS")
—GATT Articles
—Safeguards
—Textiles and Clothing
—Tropical Products

The Punta del Este Declaration called for the Round to be concluded by September 1990. In addition, a mid-term meeting of GATT Ministers was scheduled for Montreal on December 5, 1988. Negotiations actually got underway in February 1987.

Ministers meeting at Montreal in December 1988 for the mid-term review reached agreement on frameworks for continued discussion in 11 of the 15 negotiating groups. Still uncompleted are mid-term agreements on agriculture, intellectual property, textiles, and safeguards (rules for temporary import relief measures, like the U.S. section 201). By this time, the Executive Branch's authority to negotiate had been enacted and consultation did occur with Congress and private sector groups.

Generally speaking, in the areas in which agreement was reached at Montreal, little of substance was decided; the focus was on setting the agenda and framework for completing the negotiations by the September 1990 goal. Thus, most of the difficult negotiation of substance remained to be done. The exceptions were partial substantive agreements reached in the groups on dispute settlement, functioning of the GATT system, and tropical products.

Implementation of the 11 agreements has been "put on hold" (that is, no GATT member is yet required to abide by these agreements) pending further consideration of frameworks for the four remaining groups. The impasse at Montreal was chiefly in the agriculture and intellectual property groups, it being generally be-

lieved that agreement could have been reached on safeguard and textiles if there were agreement on the other two.

A further meeting at the subcabinet level was scheduled immediately after this trip at which it was expected the parties will resolve the current impasse based on work that has been going on since December. That was, indeed, the case.

### B. Role of the Trade Act of 1988

The Omnibus Trade and Competitiveness Act of 1988 renewed the authority of the President to enter into international trade agreements through June 1, 1991 and to proclaim negotiated tariff changes, subject to certain limitations. He is also given fast-track Congressional procedures for consideration of any non-tariff agreements concluded within that time period. Thus, the new Trade Act is the U.S. authority to negotiate in the Uruguay Round. Since most of the key issues in the Uruguay Round are on non-tariff matters, under the Act they are subject to fast track legislative procedures.

U.S. negotiating authority can be renewed for an additional two years, until June 1, 1993, if the President asks for renewal and Congress does not pass a resolution disapproving it. Under the so-called "reverse fast-track" provision, the fast-track can be revoked at any time by the Congress if it concludes that the Administration has not abided by its responsibility to consult closely with the Congress on trade policy and trade negotiations.

The Trade Act also sets out a number of negotiating objectives binding on U.S. negotiators in the Uruguay Round. It specifically states that a trade agreement may be entered into under the authority of the Act only if it "makes progress in meeting the applicable objectives described in" the Act.

## IV. SUMMARY OF VISITS

The schedule of visits on the trip and a summary of these meetings are as follows:

### *A. Monday, March 20—London*

(1) *Luncheon Arranged by the American Chamber of Commerce with Leading Chief Executive Officers at the English Speaking Union.*—The luncheon was attended by about 45 officials of American and British companies to discuss trade issues, including EC 1992 and the implementation of the U.S. trade law. Some representatives of large American companies with significant investments in Europe urged Members not to be concerned about EC 1992, but they and others admitted, in response to questions by Senator Bentsen, that both following the program and coping with the adverse affects of it would be more difficult for a small or medium sized American business than it is for large American business because the small and medium companies are not in a position to make significant investments in Europe, and therefore, be treated as "European." Senators Baucus and Packwood said, with respect to agricultural trade, that the United States considers this sector to be an industry, and that it was unlikely, in their opinions, that the United States would approve a Uruguay Round agreement

without substantial progress in the agriculture negotiation. Senator Packwood stressed that the United States needs to be concerned about small U.S. companies that want to export to the EC, and he expressed skepticism large multinational U.S. companies would take account of this concern. The people who attended the meeting were as follows:

Ambassador Edward J. Streator
President
American Chamber of Commerce (United Kingdom)
Former Deputy Chief of Mission, American Embassy London
Former American Ambassador to the OECD

Mr. Robert E. Brunck
Director General
American Chamber of Commerce (United Kingdom)

Mr. Eugene J. McAllister
Assistant Secretary of State for Economic and Business Affairs

Mr. Robert Deutsch
Department of State

Mr. Eamonn Bates
European Affairs Committee
American Chamber of Commerce (Brussels)

Dr. Colin Bell
Managing Director and Chief Executive
AT&T International (United Kingdom), Ltd.

Sir Gordon Booth, KCMG, CVO
Director
Hanson PLC

Mr. Gary Campkin
Head of the Western Hemisphere Department
Confederation of British Industry

Mr. Charles Carr
President
AMOCO United Kingdom Exploration

Mr. William C. Chatman
Chairman and Chief Executive
Foster Wheeler Power Products, Ltd.

Mr. Howard Claussen
Chairman
BT&D Technologies

Sir Michael Coleman
Chairman
Reckitt & Coleman

Mr. William H. Cottle
Chairman
Dictaphone Company Limited

Mr. Gerald L. Dennis
Deputy Chairman
BAT Industries PLC

Mr. David Diebold
Minister-Counselor for Commercial Affairs
American Embassy

Mr. David Enfield
Chairman and Managing Director
Colgate Holdings (United Kingdom), Ltd.

Mr. A. Edward Gottesmann
Senior Partner
Gottesmann Jones & Partners

Mr. Solly Gross
Director
British Steel PLC
(Chairman USA Working Group/European CBI)

Mr. John G. Heiman
Chief Executive
Merrill Lynch Europe, Ltd.

Mr. David Hinshaw
Tax Manager
Esso United Kingdom, Ltd.

Mr. George Hoffman
Hoffman Associates
(Chairman American Chamber European Affairs Committee)

Mr. Robert B. Horton
Managing Director
BP Company PLC

Ms. Audrey Jenson
Manager of Marketing
American Chamber

The Lord King of Wartnaby
Chairman
British Airways PLC

Mr. E. Ivan Kingston
Malmgren, Golt, Kingston and Company, Ltd.

Ms. Lynne Lambert
Economic Officer
American Embassy

Mr. John McLean
Director
American Chamber of Commerce (United Kingdom)

Mr. Paul J. Maloy
Senior Vice President
Manufacturers Hanover Trust Company

Ms. Cheryl Mooney
Manager of International Affairs
American Chamber

Mr. Richard M. Ogden
Minister for Economic Affairs
American Embassy

Mr. Julian Oliver
Vice President and Director of Corporate External Affairs
American Express Europe, Ltd.

Sir David Plastow
Chairman and Chief Executive
Vickers PLC

Mr. John D. Philipsborn
Vice President and Director of International Relations
The Chase Manhattan Bank, N.A.

Miss Jean Prewitt
Senior Vice President and General Counsel
United International Pictures

Mr. Frank E. Rosenfelt
Vice Chairman
UIP Operations
MGM/UA Communications Company

The Honorable Raymond G.H. Seitz
Charge d'Affaires
American Embassy

Mr. Peter Sothard
Deputy Editor
*The Times*

Mr. Kenneth Turnbull
Chief Executive
Bechtel, Ltd.
Bechtel House

(2) *Meeting with Prime Minister Margaret Thatcher.*—Mrs. Thatcher took the position that while the public posture of both the EC and most member states was to undertake the EC 1992 project on a basis of free trade, some of their actions had caused her to question whether that was the case. She disagreed with EC policy on agriculture and criticized the so-called social dimension of EC 1922 as a threat to open trade. She explained that in the area of subsidies, she believed these should be reduced and eventually eliminated, and she had done it in Britain with respect to state industries by giving these companies a "dowry," a bonus for going into private ownership.

With respect to the Uruguay Round, Mrs. Thatcher agreed that consensus on agriculture and intellectual property was extremely important. She also agreed that the U.S. position on the pending beef hormones dispute between the EC and the United States was probably the correct one, since there was no scientific basis for the EC directive in this regard, but she cautioned that this directive had derived from political pressures.

She also expressed concern that the Trade Act of 1988 not operate in such a way as to undermine the Uruguay Round.

*B. Tuesday, March 21—London and Brussels*

(1) *Working Breakfast Hosted by The Right Honorable The Lord Young, Secretary of State for Trade and Industry at Claridge's.*—

With respect to EC policies, Lord Young agreed with Members of the delegation that EC agricultural policy was a drag on the international system, and he noted that the United Kingdom has been a loser under the policy because it pays more in taxes to the EC for agricultural supports than it receives. He argued that EC 1992 would open the EC rather than close it even though U.S. companies were investing in Europe in order to avoid possible EC protectionism.

Senator Bentsen asked whether political pressure could make EC 1992 as protectionist as the CAP. Lord Young argued to the contrary that he saw a fortress America in the form of Buy America provisions, the Bryant amendment, Department of Defense procurement, and the pending ball bearings antidumping investigation. Senator Bentsen pointed out that Europe had more protectionism than the United States, including not only the CAP, but many industrial policies, such as the British restrictions on U.S. companies providing oil services in the United Kingdom.

Senator Baucus asked whether section 301 of the Trade Act, as amended in the Trade Act of 1988, is perceived as protectionist, productive, or counter-productive. Lord Young said the perception is that it is counter-productive because it means America is closing its markets. Senator Pryor noted that the first case filed under new section 301 was rejected by the Reagan Administration.

Lord Young noted that the United States and Britain agree on the need for protection of intellectual property, and he said that although Germany is completely closed on telecommunications at this time, it would open in 1992 initially to EC companies, later to non-EC companies.

Senator Packwood asked Lord Young whether Europe will be open to automobiles. Lord Young explained that on an EC-wide basis there would be little restriction, but that there probably would also be an EC-wide quota against Japanese automobiles.

(2) *Meeting with The Right Honorable Nigel Lawson, Chancellor of the Exchequer.*—Senator Bentsen opened the meeting with a short description of the purposes of this trip. He then asked whether it would be possible to have a common currency in Europe and whether economic cooperation between a united EC and the United States would be possible. Senator Packwood added that he was interested in the operation of the plans for a totally free capital market.

The Chancellor responded that there were substantial limits on the ability of Europe to develop a common currency, but that some saw it as a symbol of EC unity, a "political emblem." This action, however, would require unanimity because it required amendments to the Treaty of Rome and it was, therefore, unlikely. Mr. Lawson said with regard to trade that Japan was a particular frustration for all countries in the system, but that nevertheless multilateralism was the best approach. He said he expected a minor breakthrough on agriculture in the discussions taking place in Geneva, and Senators Packwood and Baucus both expressed skepticism about the reality of the breakthroughs.

Mr. Lawson closed the meeting by suggesting that the United States might be taking too radical an approach on trade, and that it should turn increasingly to multilateral approaches.

*C. Wednesday, March 22—Brussels*

(1) *Meeting with Ray MacSharry, EC Commissioner for Agriculture and Rural Development.*—The discussion during this meeting was frank and direct. Led by Senator Bentsen, the U.S. side expressed concern about 1992, as well as the hope that the EC would move toward free trade and away from protectionism. Senator Bentsen pointed out the United States has been reforming its agricultural policy in past years, and that American farmers recently had gone through some very difficult times. He also warned a U.S.-EC trade war would be disastrous, but that this could happen if the Uruguay Round was not successful, and that agriculture was a key element in this process. Senator Baucus emphasized the Congress would not agree to any bad agreements, and that the shape of new U.S. farm legislation would depend on progress, or lack thereof, in the Uruguay Round. He also expressed concern about the hormone case, and the consequences of the EC's action.

Senator Pryor also expressed concern about the state of agriculture in the Uruguay Round, and that U.S. farmers fear indecision and are anxious about the new farm bill. He described the U.S. soybean program and how lost sales to the EC represent one out of every five rows planted in the United States. He discussed the pending section 301 case against the EC oilseed policy, indicating that the July 5 date was rapidly approaching when the President had to decide whether to retaliate under the Trade Act of 1988. Senator Pryor said that United States does not want to retaliate, but that he finds it difficult to explain why the GATT panel is not up and running.

Senator Packwood expressed his concern about 1992, and his concern that the EC could not agree to the principle of an eventual elimination of agricultural subsidies.

Mr. MacSharry said the CAP is the one policy which has brought the EC together, and although it has resulted in overproduction and huge stocks, significant reform measures were started in 1984 and have continued since then. He said the EC is willing to freeze budgetary levels for both direct and indirect subsidies, but added that European politicians cannot agree to a total elimination of subsidies. Mr. MacSharry also said the EC does not want agriculture to be perceived as the issue which brought the Uruguay Round down.

He said the oilseed case is top priority, and that the EC is very concerned the United States has refused to avail itself of the services of the GATT Secretary General [Dunkel]. Mr. MacSharry also noted the EC is insisting that the United States not retaliate during the time the case is being heard, and that an injury panel be agreed to for the purpose of assessing damages.

(2) *Meeting with Christiane Scrivener, EC Commissioner for Taxes and Customs Union, and Obligatory Levy Questions.*—Senator Bentsen began the meeting by describing the purposes of the Codel's trip, and Mrs. Scrivener replied generally concerning the purposes of EC 1992 and then referred specifically to her brief concerning taxes and other revenue measures. There was a discussion of the issue of local content, during which Mrs. Scrivener said she did not expect that this program would be applied in a way that was ad-

verse to the United States, but she promised to take the Senators' concerns into account.

(3) *Meeting with Jacques Delors, President of the Commission of the European Communities.*—Senator Bentsen led off the discussion by explaining that the delegation was seeking to open a dialogue with the EC at a time when the U.S. trade deficit remains a matter of deep concern and as Europe moves toward 1992. He wanted President Delors to be aware of U.S. concerns as regards the 1992 exercise and to understand how hard the Congressional leadership had worked to avert protectionist provisions in the Trade Act of 1988.

President Delors felt the United States and the EC have somehow lost the climate of mutual confidence that existed in the 1960's and early 1970's and that he wants to search out ways to improve the political dimension of the U.S.-EC partnership. He hoped the United States would keep in mind that the purpose of 1992 is to bring about a radical change in the functioning of the economy of the EC and that the results are already apparent in terms of increased dynamism and an improved global economic environment stemming from more rapid European growth and job creation. There is absolutely no intention to construct a "fortress Europe," President Delors said, and protectionism would lead to frustration of the EC objective of improving its ability to compete. President Delors conceded that there are many problems in the U.S.-EC relationship and, in particular, in the very difficult agricultural area. He confessed that he felt the U.S.-EC partnership needed to find better ways to solve problems as they arose.

President Delors also remarked that he had received the impression in his conversations with U.S. business that by and large their reaction on 1992 was enthusiastic; they see many opportunities and seldom express worries about "fortress Europe." Several Members of the Codel replied that while large U.S. enterprises may tend to view 1992 favorably, small and medium businesses have much more uncertainty.

The Senators voiced their concern about EC domestic content requirement, citing the British Nissan case and possibility of European restrictions (in exports of automobiles manufactured by Japanese-owned plants in the United States. Senator Bentsen warned that domestic content requirements would fuel demand for similar requirements in the United States and especially in the developing countries. President Delors conceded that the automobile sector is one of the EC's biggest problems. The Commission's objective is to move to a transitional arrangement in 1992 with the Japanese which will lead to a phaseout of all restrictions by 1995. The automobile industry supplies 10 percent of Europe's GNP and provides 10 percent of its employment, and therefore, has political sensitivity. He could, nonetheless, assure the Codel that the Commission intends that the European market be open.

The exchange on agriculture covered familiar ground. The Codel and President Delors expressed their deep concern over the inability of the United States and the EC to reconcile their differences and open the way to the successful conclusion of the Uruguay Round. President Delors stressed the political sensitivity of the agricultural issues for an EC with many small farmers and deep con-

cerns over the rural environment. President Delors stressed in particular that restrictions on agricultural financing and output imposed since 1984 have raised political pressures within member states to the point where they are hardly containable. Several Senators noted that their conversation with Commissioner MacSharry had given them the impression that little or no progress has been made in resolving U.S.-EC conflict over long and short term agricultural reform.

(4) *Meeting with Frans H.J.J. Andriessen, EC Vice President and Commissioner for External Relations and Trade Policy, and Cooperation with other European Countries.*—Senator Bentsen began the meeting by noting the Finance Committee's jurisdiction over trade. He also recalled that during the debate over the Trade Act there had been extensive lobbying by U.S. trading partners, that their concerns were taken into consideration and that the Gephardt and Bryant amendments were defeated. Turning to 1992, he saw the possibility for increased trade but as there were conflicting interests within the EC, the outcome was not clear. As a specific concern, he cited the local content requirements that seemed to be developing which had the effect of forcing U.S. companies to invest in the EC.

Mr. Andriessen responded that there is a common U.S.-EC interest in maintaining the free trade system; the EC tries to respect the rules of the GATT and resolve issues through the dispute settlement process. The EC is concerned by the unilateral possibilities of the Trade Act; the notion of "fortress Europe" has spread around the world, but he prefers "Europe—Gateway of Opportunity."

Addressing the local content issue, Mr. Andriessen said that the EC does not intend to have legislation that is not GATT compatible. Local content is applicable only where there is a special trade arrangement, such as with EFTA and where there are "screwdriver" plants that circumvent dumping findings. He assured the Senators that U.S. cars can be sold in Europe. Turning to the United Kingdom-France dispute over the Nissan Bluebirds, Mr. Andriessen said that there are now quotas on Japanese cars in some member states which must be removed by the end of 1992. The French decision to count the United Kingdom Nissan Bluebirds is not an EC measure. What will happen after the quotas are removed is being debated, but in Mr. Andriessen's view after the national quotas are removed there must be some monitoring of Japanese cars for a specific time. Mr. Andriessen assured the Senators that if transitional measures are adopted, there will be no impact on the United States.

Senator Bentsen responded to Mr. Andriessen's characterization of the Trade Act as unilateral. He pointed out that protectionist amendments in the Trade Act were removed and that the objective of the Trade Act is to open markets and break down barriers. He said that the Trade Act calls for a study to name barriers to trade, and where there are the most serious barriers, it gives the Executive two years to negotiate. The Trade Act also authorizes the President not to retaliate where this would be inconsistent with GATT obligations.

Turning to the hormone case, Mr. Andriessen said the last EC position was to have a panel with terms of reference that would contain all relevant factors. He said that the United States would have its standards considerations and the EC its interest in looking at GATT compatibility. He said that there would be a problem if the issue is not settled in the 75 days allotted and objected to what he regarded as unilateral sanctions.

Mr. Andriessen turned the discussion to the oilseeds panel and asked what would happen if there were not an answer by the July 5 deadline for U.S. action. Senator Bentsen said that the United States feels that the EC has frustrated the GATT process in the oilseeds case. Mr. Andriessen agreed that the EC has had difficulties on the formation of a panel, but he countered that GATT decisions had been taken but not implemented on the U.S. superfund. Senator Bentsen responded that the United States did not stall on the superfund and on the customs user fee, and that the United States will take corrective action in those cases.

Senator Pryor strongly criticized the EC's failure to permit a panel in the oilseeds case to organize and hear the facts. He argued that the EC had put the United States in a position where it might have to act and that while the United states acted in good faith the EC procrastinated. Mr. Andriessen ended the discussion of the oilseeds case by alleging that the United States had not lost market-share to EC production, which was being put under control, but rather to imports form Argentina and Brazil.

The meeting ended with a discussion of reciprocity. Mr. Andriessen said that where there are no multilateral rules, such as in banking, the EC wants at least national treatment by other countries. He explained that the European Parliament wants the reciprocity principle tightened but that Commissioner Brittan is trying to make the rules more flexible. When asked specifically how the rule would apply to U.S. banks and if they would get national treatment, Mr. Andriessen noted that banks can do more in the EC than they can in the United States. But the target was such things as Korean insurance rules which prevent any effective access by EC firms.

*D. Thursday, March 23—Paris*

(1) *Meeting with Henri Nallet, Minister of Agriculture and Forests.*—Senator Bentsen began the delegation's presentation by stressing the importance of agricultural trade reform to the U.S. Congress. He pointed out that members of the EC spend more than the United States on food as a percentage of GNP, and living standards would improve if food costs came down.

Mr. Nallet responded that France agrees with the need to cut subsidies because the Government of France has budget problems just as the United States does. Moreover, he pointed out that France has efficient agriculture in many crops that can survive free competition. He argued that all types of government support to agriculture should be out on the table, including U.S. programs such as section 22 of the Agricultural Adjustment Act, and all price support programs.

Senator Packwood challenged French officials to make a commitment to a date certain for eliminating trade distorting subsidies

and protection in agriculture. He told Mr. Nallet that the United States needs a "light at the end of the tunnel" (that is, an end to market distorting subsidies at a time certain in the future), or else the U.S. export enhancement program would be used more aggressively to retain marketshare.

Mr. Nallet suggested that after agreeing on the methodology for quantifying current levels of support, many countries in the GATT should negotiate a timetable for a reduction of current levels of support. This reduction should take place over a period of three to five years, and that as each stage ends, the signatories repeat the process for the next stage, eventually eliminating the subsidies. However, he would not make a commitment to discontinuing subsidies a time certain. Mr. Nallet also pointed out that the EC had begun the process of reducing farm subsidies with milk production ceilings, cuts in cereals prices, and reductions or at least caps on the EC farm budget. He said that it was now expected of the United States to make a move. He said that it was important to have agreed means of verification of eliminating subsidies, but with that condition he would support an agreement to lower progressively and reciprocally under GATT monitoring all direct and indirect agricultural supports which distort production.

Mr. Nallet questioned whether the United States really wants to discuss all types of supports, arguing that among other U.S. programs, the agricultural set-aside must be on the table in the negotiation.

Several Senators replied forcefully that the U.S. Congress and major U.S. farm groups are willing to put all types of support on the table and to match EC reductions, but they also stated that all recent agricultural program reductions in the EC did not compare in either size or import to farmers with reductions made to agricultural programs in the United States. Senator Baucus pointed out that U.S. farm legislation will be redrafted in 1990, and that developments in the Uruguay Round and in U.S.-EC trade conflicts will help determine such elements as the level of spending on the export enhancement program.

Senator Pryor brought up the subject of the U.S. Government's complaint in GATT with respect to the EC soybean subsidies. He emphasized that the U.S. Government does not want to retaliate, but that faced with EC obstruction of the litigation, the United States did not seem to have other options. Senator Pryor pointed out that the United States had lost a large volume of sales in recent years and that 14 million acres of soybeans had been retired over the last 10 years. He also pointed out that there is no deficiency payment for soybeans in the United States. Under these circumstances, he argued that the United States has made a greater effort to reduce subsidies and raise prices of soybeans than the EC has, and therefore, the EC practice is particularly reprehensible, especially when reinforced by EC stalling at the GATT.

Mr. Nallet responded that the EC had asked for a clarification of the U.S. claim of damages, and said that he believed that in part the cause of U.S. losses in Europe lay with increased Brazilian and Argentinean soybean exports. He criticized the U.S. linkage of a panel for the section 22 waiver case to the oilseed panel, but in the

main he stressed a need to address the underlying problem in agriculture in a negotiation rather than squabbling in GATT panels.

In closing, Mr. Nallet noted that he will be President of the EC's Agricultural Council from July 1989 for six months. In this role, he would like to visit the United States to meet producers, the Congress, and other Government officials. He said he wanted to broaden direct contacts with the U.S. Congress, and he mentioned a French national assembly initiative which will be carried out by the Institut Francaise de Relations Internationales in cooperation with the Institute for International Economics in the United States to invite several U.S. elected representatives to France early in July for farm policy discussions and farm visits.

(2) *Meeting with Secretary General Jean-Louis Bianco, Chief Advisor to the President, at the Presidential Palace (The Elysee).*—Senator Bentsen began the discussion by stressing the U.S. Government's support for European integration. He said that the Codel was in Europe to learn about the 1992 process and to register some concerns, just as Europeans had provided helpful input to the U.S. Congress during its consideration of the Trade Act of 1988. He said that neither he nor the U.S. Government was seeking a "seat at the table" of the EC, but he wanted to keep the channels of communication open.

Mr. Bianco expressed the French Government's belief that the costs of not integrating Europe, such as unemployment and slow growth, were unacceptable, and that therefore, the EC had no choice but to continue with the 1992 program despite occasional disagreements among European companies.

The issue of agriculture came up, and Mr. Bianco commented that in Europe they thought the EC had made a step forward in reducing subsidies and was ready to talk with the Americans about moving further, but he said for political reasons both sides must move exactly equally. Moreover, he said everything must be discussed not just the direct subsidies of the EC, but the indirect subsidies in the United States. He said he understood quite well that Congress could turn down the results of a GATT negotiation, and he took the comment quite seriously.

With respect to the EC unification effort in industrial sectors, Mr. Bianco said that the purpose of the effort was to develop sectors in which Europe has a future because it is competitive. He said this was actually less of a problem where there was state ownership because those companies are required by the laws of France to make a profit, but with respect to other companies that are not state owned, it was more difficult to tell where Europe's comparative advantage lay.

Senator Bentsen expressed the group's concern about the possible effects of the EC banking directives on U.S. banks. Mr. Bianco and his aides avoided detailed predictions on how the banking directive would be applied, but stressed that the reciprocity language was aimed at closed financial markets in Asia, particularly in Japan.

Mr. Bianco expressed concern that the United States had designated France under the telecommunications provisions of the Trade Act of 1988 without designating Japan, which clearly had greater barriers to telecommunications. Senator Bentsen pointed

out that the designation of France was justified by the fact that the United States had unilaterally removed barriers to telecommunications equipment and had a completely open market on power generating equipment while these state sectors in Europe were completely closed to the United States. Mr. Lang added that Japan was on a separate track from France because it had a trade agreement with the United States on telecommunications and the question with respect to them was whether they were violating the trade agreement, a decision that would be made at a later time under the terms of the Trade Act.

*E. Friday, March 24—Paris*

(1) *Breakfast hosted by Pierre Beregovoy, Minister of Economy, Finance, and the Budget, at the Ministry of France.*—This meeting followed much the same issues as other meetings with not importantly different results, except in one area. Mr. Beregovoy declared that it would be futile and counter-productive for France to oppose the trend toward globalization of international trade and investment, and therefore, it would be pushing an open, unified European market during its Presidency in the last six months of 1989. To the question (from Senator Packwood) of whether France could make a commitment for free access for U.S. automobiles, Mr. Beregovoy stated that genuinely American automobiles would continue to enter without restriction, but automobiles produced by Honda of Japan would probably be considered Japanese and thus, would be subject to French quotas on imports of Japanese automobiles. Mr. Beregovoy also objected to designation of the EC as a priority country for negotiation under the Telecommunications Trade Act, and he raised the subject of investment during a discussion of EC 1992, making a point of the openness of France to foreign investment. He pointed out that he had done away with the review of buying new business in France, and since he had presumed leadership at the Finance Ministry, he had turned only one U.S. investment.

(2) *Meeting with Foreign Minister M. Roland Dumas.*—Senator Bentsen began the meeting by discussing EC 1992 and the agriculture problem, as well as the GATT round in the terms used with other officials.

Senator Bentsen said that while the United States wants the EC to progress, the United States also sees the CAP as hurting free trade, and it does not want the CAP imitated in the industrial sectors in EC 1992. He commented that larger companies, which can invest in the EC may be giving European leaders that impression that they have no problems with EC 1992, but smaller and mid-sized companies who engage in European business through exporting rather than investment in Europe have a different point of view. He also said that he was concerned that protectionism might prevail in the industrial sectors because of the social costs in Europe, and that state industry would not be able to compete with non-European firms.

Mr. Dumas commented that France is a good ally of the United States and wants to reinforce cooperation in security areas. He said that the United States had an idea of protectionism in EC 1992 but in fact, Europe wants an open market and does not want to increase protectionism, but they do have to defend European inter-

ests. The discussion covered EC 1992 problems in some specific sectors, including automobiles. In response to a question from Senator Packwood, Minister Dumas said the EC would not restrict the importation of automobiles from the United States.

Senator Bentsen raised questions concerning U.S. access to the EC telecommunications and power generating markets, and Mr. Dumas promised to take account of these concerns. Mr. Dumas emphasized the French Government's interest in third world debt and said that President Mitterand would want to put this issue on the table at the July economic summit. There was a brief discussion of the problems of developing countries, particularly heavily indebted developing countries.

(3) *Meeting with Prime Minister Rocard.*—After an introduction by Senator Bentsen, Mr. Rocard said that Europe would be open after EC 1992, and his fear was that Europe's trading partners would not be as open as Europe or France. He said that the French Government wanted to protect intellectual property and that it should be regulated by GATT, and that the CAP was the most efficient way to bring about self-sufficiency in Europe. The CAP is so fundamental in the EC that it cannot be reversed.

He said that progress on trade required re-evaluation of strategic interest. He said Europe was importing a lot, especially from developing countries, and feels some protectionist pressure. Senator Bentsen responded that he had seen signs of this pressure and that he himself had to resist such pressure in the United States. He said the Uruguay Round is an essential program, and the multilateral discussion is best, but 96 nations was an inefficient way to conduct discussions. Therefore, some major countries would have to begin the negotiation over a period of time to work out the difficulties. Mr. Rocard agreed with this. He said that third world countries would be very concerned about the intellectual property issue because they are afraid they will get the manufacturing jobs and the rich countries will do the brainy jobs.

Senator Pryor asked the Mr. Rocard whether it was possible to get rid of subsidies in Europe completely. Mr. Rocard responded that it might be possible in 15 years. He said that it would be necessary to create a reliable home market for each partner. He also argued that the stabilizer in the EC does more than the United States has for limiting world production, and that there is a misunderstanding in the United States about why Europeans subsidize in the ways they do and the effects of the CAP, which have not been by increasing acreage, but by improvements in methods. These improvements in methods have increased output by 50 percent without a change in acreage. On that basis, he said, we can reduce EC subsidies because the EC is so much more productive. Moreover, Mr. Rocard said for political reasons it was impossible to choose between products. All producers, whether they are efficient or not, have to all reduce subsidies at the same time.

*F. Tuesday, March 28—Venice and Geneva*

(1) *Meeting with European Roundtable Business Leaders.*—The European Roundtable group consisted of Dr. Giovanni Agnelli, Chairman of FIAT; Carlo de Benedetti, Chairman of Olivetti; Antoine Riboud, President Groupe BSN; Sergio Pininfarina, President

Confindustria; Vice Prime Minister de Michelis; IRI President Prodi; Italy EC Representative Pandolfi; Minister of Foreign Trade Ruggiero; Prof. M. Monti; and Former EC Commissioner Peter Sutherland. Dr. Agnelli and Senator Bentsen co-chaired the two hour meeting.

Dr. Agnelli noted the greater relative importance of the European motor car (production 12 million units yearly versus eight million each in American and Japan) to EC's economy as opposed to the United States' and said one-third of the U.S. trade deficit is due to automotive trade while 40 percent of the EC's positive trade balance is attributable to the automotive sector. Dr. Agnelli said that by 1995 the EC expects its automotive exports to the United States to decline; U.S. exports (heavily Japanese origin firms located in the United States) to the EC to increase; and Japanese automotive penetration in third markets to be significant. The European industry must become more integrated and competitive. This will be accomplished. However, a transition period beyond 1992 will be necessary (including a local content rule and requiring that research be done in Europe) to permit the European car industry to defend and strengthen itself.

Senator Bentsen, in addressing concerns whether 1992 will see a "fortress Europe," noted that both European and Japanese interests, through lobbyists and direct representations to Congress and the Administration, had a voice when U.S. trade legislation was being considered. Thus far, the United States has not had a similar impact on many of the EC proposals, the sum total of which will represent the legal basis for EC 1992. The Finance Committee, which can reject any GATT agreement reached, is particularly concerned about the agricultural sector. In addition, the U.S. Government cannot accept that EC 1992 will limit U.S. exports of automotive products and semiconductors, restricts in important respects public procurement mainly to EC firms, and unfairly advantages the EC firms in supplying the telecommunications sector. Smaller and medium sized U.S. firms, especially, may face very large problems.

Mr. Ruggiero observed that European integration was primarily a political exercise. The U.S.-EC relationship is a paramount and an extremely strong relationship. The EC, the world's largest importer and exporter, is heavily trade dependent and has no interest in erecting a fortress. Internal walls are being destroyed and this should lead to greater growth and international trade which is in everyone's interest. Eventually one set of technical standards and not the 12 national standards that exist today will make exporting to the EC easier. Barriers to capital movements are being eliminated as are quantitative restrictions. All of these and other things will improve the international trade in the environment.

Mr. Ruggiero said that U.S. trade legislation, specifically section 301 and super section 301, are GATT incompatible. The hormone meat issue has already prompted retaliatory action and soybean exports may be a re-play. He said Europe 1992 was a stepping stone towards a creation of a North Atlantic free trading area rather than a threat.

Senator Packwood expressed concern about Dr. Agnelli's desire for "temporary" automotive component import restrictions. U.S.

textile experience offers an example of temporary controls becoming institutionalized, he said. The U.S. Government was prepared to put on the negotiating table eventually eliminating agricultural subsidies, and observed that for the United States agriculture is an industry, not a social mechanism. He asked about reports that EC regulations envisage in the telecommunications area a 50 percent domestic content rule and said, if true, this clearly represents a fortress mentality.

Deputy Prime Minister de Michelis argued that Europe after 1992 will be more open than ever before. Major U.S. companies in Europe such as IBM and AT&T and Japanese companies too will have many more new opportunities. A fortress Europe will only emerge if other countries, such as the United States, over-react and try to create a bilateral reciprocity contrary to the GATT and the spirit of greater integration of world trade.

Senator Baucus noted in response to several speakers that the United States was impressed with the eradication of Eurosclerosis but was concerned about abuses of the CAP, which have taken market from U.S. agricultural exports and forced the United States to respond in kind via the export enhancement program; the EC ban on meat with hormones despite no scientific basis; the original formulation for the EC financial services directive was based on a protectionist reciprocity rule; and a number of important industrial sectors are seeking 50 to 80 percent local content requirements. Senator Baucus indicated that both the EC and the United States have greater problems with the Japanese than with each other, but that if the GATT cannot be used to achieve progress in U.S.-EC trade, then hope for the future of world trade seems very limited.

EC Commissioner Pandolfi said 11 years ago the U.S. Government expressed serious concerns about the institution of the European Monetary System and yet none of the U.S. concerns materialized. A political concept is driving EC integration and he cautioned that one should not overlook the temptation to some European audiences of the increasingly heard siren call of a Europe from the Atlantic to the Urals. The health of the Western democracy, he said, requires a strong and integrated EC and United States. We should bear this in mind whenever trade problems arise. Europe, he said, faces a paradox. On one side, the U.S. Government, through its 1988 trade legislation, is becoming more aggressive, and on the other side within Europe there is a lack of imagination and creativity to achieve the single market with its attendant liberalizing reforms.

Former EC Commissioner Peter Sutherland said that in the agricultural area, the EC has done much in recent years which the U.S. Government failed to recognize. He identified the slaughter of 3.6 million cows, reducing cereal support prices and that the EC continued to be a major food importer as evidence. Much still has to be done but the direction is right. The EC is committed to a multilateral framework. There is no hidden agenda. On financial services, he indicated a constructive and positive response from the EC's trading partners could bring this area into the GATT.

Senator Pryor said the Trade Act of 1988 offers a way to expedite GATT disputes. Given the unique loan system used by the American farmer, long-term GATT disputes create very difficult forward

planning problems. He mentioned specifically the soybean petition which he said the EC has not seriously addressed for close to two years.

IRI President Prodi said the zenith of EC protectionism was three or four years ago. Now when the EC is moving to lower agricultural prices, it is difficult to understand why the United States is promoting the dangers implicit in a unified Europe. Both the EC and the United States are high technology, high wage areas, and despite ongoing minor trade skirmishes, our common concerns, benefits, and interests far outweigh the relatively minor problems which we all agree must be resolved. In Asia we both face a problem of high technology, low wage countries which operate under different psychological and political rules. This will be the major challenge for liberalization of global trade not relatively minor U.S.-EC trade problems. Historically the United States has promoted European cohesion but now with their voices of alarm concerning fortress Europe, the United States seems to be backing away from this.

Olivetti Chairman de Benedetti said if the United States concentrates on the CAP, it loses sight of broader European developments. The United States and the EC are interlocked in many areas (he noted that Americans in 1988 paid more than $100 billion to the EC in interest dividends and rents) and ignoring these interlocking interests seems unwise. If the United States wants to correct its trade deficit, its exports have to grow twice as fast as its imports. Accomplishing this needs a strong European market. Technology has eclipsed time and space and developments, with particular reference to the Pacific Rim economies, new global trading patterns will be the major concerns of the future. The center of political economic gravity has shifted from the Atlantic to the Pacific area. It is in the U.S.-European interest that, if possible, the gravity center be re-focussed in the Atlantic area. He expressed conviction that multilateralism is how the United States had to take the lead in re-balancing the equation between Europe, Japan, and the United States, which involved political leadership and initiatives in favor of more liberal trade. He also expressed surprise and concern that the United States seemed reluctant to assume its traditional leadership role.

Senator Bentsen indicated that trade and commerce issues are more important in U.S. policy concerns today than ever before. He expressed understanding for common problems both the EC and the United States have with Asia. A strong Europe was certainly in the U.S. and western world's interest. He expressed particular appreciation to Italy for its acceptance of U.S. and NATO military bases. He stressed that the concerns expressed by the Senators were intended to give influential European businessmen understanding of what preoccupied Congress so that their voices would be heard in the ongoing European debate on trade issues in Europe.

(2) *Meeting with Arthur Dunkel, Director General of the GATT.*—Mr. Dunkel said that the deadline for the Uruguay Round is the end of 1990, and that there is a clear link between the Uruguay Round and EC 1992. He said that when President Kennedy launched the Kennedy Round, the EC was negotiating a common

external tariff, and the pressure for the Round came from trying to limit the protectionist effects of the EC creating a common market. The result was that the Round was based on a 35 percent reduction of tariffs, including the EC. Similar things had happened in the Tokyo Round, and now in the Uruguay Round was an attempt in part to assure that 1992 was not protectionist. Another function of the Uruguay Round was to bring LDC's into the GATT system more fully.

Senator Bentsen responded that agriculture is critical to the United States—he said that if there were not good agriculture agreements in the Uruguay Round then it was unlikely the Round was get approved by the Congress.

Mr. Dunkel commented that the U.S. position was presented as absolute, and recently that position had been modified somewhat. He said that no one thinks the final goal of the United States—the elimination of subsidies—has changed, but it is easier to move forward in the formulation now under consideration. He said there could be an agreement for a temporary freeze on agricultural subsidies next week, and that world markets were helping. He also said he thought the negotiators had the elements for a long-term negotiating framework.

Senator Packwood said that such an agreement would have to be balanced, and that the United States would not freeze at one-tenth the level of the EC's subsidies, but that the reduction had to bring both areas into alignment on the effective levels of their subsidies.

Senator Bentsen asked whether there had been much progress on intellectual property. Mr. Dunkel said that the first two years the issue was stalled, but there was a new text with six or seven problems identified for the negotiators to begin discussing and the rest of it would be cosmetics.

## V. CONCLUSIONS

The main conclusions as a result of this trip are as follows:

Europe 1992 is likely to succeed. European leaders are committed to it, and they have created the mechanism in the form of the Single European Act for accomplishing their objective. Disagreements between the leaders, such as the disagreement between French Prime Minister Rocard and British Prime Minister Thatcher over such issues as social policy and a common currency, are outside the scope of EC 1992, and while difficult to resolve do not necessarily represent a roadblock to the program.

This is not to say that there are no difficulties in completing the 1992 project. There are very difficult issues ahead, but at the top levels of members' state governments, there appears to be sufficient consensus about moving ahead that combined with the weighted voting procedures of the Single European Act, most of the objectives of the 1992 project can be accomplished more or less on time.

Although December 31, 1992 is the date on which the EC wants all of the EC 1992 directives to have been put into effect by member states of the EC, the policy decisions will have been made long before, in order to give member states time to put these policies into effect. Thus, it is likely that most of the major policy deci-

sions in EC 1992 will have to be made by the end of calendar year 1990.

There are some things EC 1992 is not. It does not represent the final political unification of Europe, and it will not result in a United States of Europe. Of course, many Europeans, including political leaders, believe that 1992 paves the way for a more complete political union within the EC, but others see 1992 as mainly industrial policy, designed to assure that European firms are able to compete both in Europe and in the world as a whole with their Japanese and American and other foreign competitors. This industrial policy might be a positive development if it relies mainly on creating such a large market in Europe that European companies would become competitive by competing with each other and with foreigners; the dark possibility is that the EC would create a period of import protection, subsidies, and other distortions in order to allow these industries to build themselves up to competitive strength. These trends might adversely affect America, as well as the global trading system.

EC 1992 is clearly of major importance to the United States. The EC is the largest market, taken as a whole, of the United States, worth around $70 billion in exports in 1988. Integration of the market would suggest more efficiency, more disposable income, and therefore, greater exports for the United States, not to speak of a stronger ally. More importantly, EC 1992 represents an attempt to realize the benefits of an open trading system for the EC, and therefore, provides a great opportunity for the EC to contribute to the global trading system.

This contribution to the global trading system cannot be underestimated. Without EC support, indeed the active help of the EC, the Uruguay Round is likely to fail. For one thing, existing European agricultural programs are a major impediment to perfecting the trading system. More generally, however, Europe and the United States together with Canada, represent a tremendous force in the global trading system which can have almost overwhelming influence on other nations and regions.

It is important for Americans to realize that EC 1992, while a major development, is not the only focus of U.S.-EC relations. We have a number of bilateral trade disputes. Most of the EC complaints about the United States focus on relatively minor aspects of U.S. programs, such as the 17/100th percent customs user fee requested by the Reagan Administration and enacted by Congress in 1986. U.S. programs that irritate Europe to the point of proceeding against them in the GATT, can and will be removed in accordance with existing GATT orders that have a sound and fair basis.

On the other hand, the United States has some serious problems with existing EC programs. Major subsidies to Airbus, which compete with the single most successful industrial export sector in the United States, commercial aircraft, are a major problem. European resistance to purchasing steam generating equipment, telecommunications equipment, and other high technology products also present major problems for the United States because those sectors are open to European competition in this country. Finally, European agricultural barriers and subsidies not only severely restrict U.S. exports to Europe, but distort U.S. exports to the world as a

whole in those agricultural products where the United States is most competitive and Europe is not.

These non-EC 1992 issues are more than simply irritants for the United States. Agriculture is a major industry for us, so are aircraft, telecommunications, and other industrial sectors adversely affected by European programs. Many of these European programs begin with the best of intentions and ended up as tremendous distortions of global trade because of political pressures within the EC. One EC complaint, which does raise important issues, is the EC challenge to the U.S. system of defending valid U.S. patents and other intellectual property.

Finally, with respect to both EC 1992 and other EC programs, it is clear that the United States can and should have an influence on EC decisions, through more active representation in Brussels and a rich dialogue with the U.S. business community. In this regard, the Congress needs to be careful to keep in mind the concerns of small and medium-sized businesses which will not have the same concerns and European representatives of U.S.-based multinational firms.

As far as the Uruguay Round goes, it was apparent during this trip and has since been confirmed that the Director General was successful in bringing together negotiators of key countries to approve a plan for further negotiations in the Uruguay Round, but this represents a modest step. Virtually no agreements on substance have been reached. Much remains to be done.